

5-1200.00 FIXED ASSETS

5-1210.00 INTRODUCTION

5-1210.10 DEFINITIONS

"Fixed assets" are:

- (1) Tangible property items,
- (2) Of a relatively permanent nature,
- (3) Of significant value, and
- (4) Used in conducting the government's activities.

They include land, buildings, machinery, furniture, and other equipment which the district intends to hold or continue to use over a long period of time. "Fixed" indicates the intent for long-term use, not the immobility of an asset.

"General Fixed Assets" are fixed assets other than those accounted for in proprietary or nonexpendable trust funds (funds 70 through 85). General fixed assets are recorded in the General Fixed Asset Account Group and as expenditures in the governmental or expendable trust fund which purchased the asset.

"General Fixed Asset Account Group (GFAAG)" is a nonfund account used to account for all fixed assets except those related to specific proprietary funds or nonexpendable trust funds, which should be recorded in those funds.

"Capitalization" is the process of recording an item as a fixed asset. The asset is normally recorded either in the General Fixed Asset Account Group or in the proprietary or nonexpendable trust fund which purchased the asset. Payment for the item is a capital outlay.

"Depreciation" is the loss in value or service life of fixed assets because of wear and tear through use, elapse of time, inadequacy or obsolescence. Accounting for depreciation means recording an asset's gradual loss in value as depreciation expense over the useful life of the asset.

"Book Value" is the cost of an asset less salvage value less accumulated depreciation.

"Infrastructure assets" are land improvements such as roads, curbs, gutters, sidewalks, lighting systems, and similar assets that are immovable and of value only to the district.

5-1210.20 PURPOSE

Fixed asset accounting is required because it provides management control over safeguarding a significantly valuable investment, determining necessary insurance coverage, formulating acquisition and retirement policies, and reporting accurate data on financial reports.

5-1210.30 BASIC ACCOUNTING PROCEDURES

GAAP requires that purchases of fixed assets be recorded as expenditures in the governmental funds which purchased the assets and also recorded as assets in the General Fixed Asset Account Group (GFAAG). Fixed assets purchased by a proprietary or nonexpendable trust fund are not recorded as expenditures in those funds. GAAP requires that fixed assets purchased by a proprietary or nonexpendable trust fund be recorded as assets ("capitalized") when purchased and gradually expensed by recording depreciation over a period of time. Expendable trust funds are unique in that fixed assets are recorded both as expenditures and assets when purchased.

Capitalization Policy: The district should establish written capitalization policies. Because the administrative costs of keeping fixed asset inventory records in detail might outweigh the benefits of management control if all items were recorded as fixed assets, OPI recommends the district **record: land, buildings, building improvements, machinery, furniture, and other equipment which cost \$5,000 or more and have a useful life of one year as fixed assets** in the appropriate proprietary fund or GFAAG. In addition, Federal grant regulations require the district to capitalize assets purchased using federal moneys at \$5,000 or more. Similar items purchased together, or items to be used as one system, which total \$5,000 in aggregate should also be capitalized. Using these guidelines, items costing less than \$5,000 would not be recorded as fixed assets (i.e., capitalized), but their cost would be recorded as an expenditure under minor equipment, supplies, etc. Inventory records may be established and maintained for control or insurance purposes for items under \$5,000, but the cost for items under \$5,000 should not be included in the amount reported in the GFAAG. OPI's recommended capitalization policy of \$5,000 is optional. The district may set any lower amount for the capitalization policy but may not set a higher limit.

Depreciation is not normally recorded for assets accounted for in the GFAAG or expendable trust funds.

Computer software is a long-term intangible asset representing the right to use the software. Since fixed assets are generally defined as tangible property items, software is usually not, but may be, capitalized.

Sale of Fixed Assets purchased with non-federal funds is governed by Section 20-6-603 and 20-6-604, MCA. Generally, assets may be sold or otherwise disposed of 14 days after notice to the public. Any taxpayer may appeal the resolution to dispose of the assets in district court. Section 20-6-204 provides the proceeds from the sale may be deposited to the debt service fund, building fund, general fund, or other appropriate fund at the discretion of the trustees. See pages 5-1200-19/21 for a sample resolution and public notice.

Please check with the OPI State and Federal Grant Handbook for guidelines to dispose of assets purchased with state or federal grant funds.

5-1220.00 FIXED ASSET INVENTORY RECORDS

School districts were required to establish and maintain fixed asset inventory records by June 30, 1993. (ARM 10.10.407) The fixed asset inventory system should consist of a ledger of assets and a nonfund account group for financial reporting.

Ledgers should contain information sufficient to identify the item and facilitate accounting for the purchase, depreciation (if applicable), and disposal of the item. Records should include description/model number, serial number, date of purchase, cost, inventory number, estimated useful life, and additions of any accessories or attachments which added value to the item. Records of fixed assets which are retired from use, sold, or traded should be adjusted to show the reduction to zero value but should be retained for audit. The form of the inventory ledgers is not mandated, but a suggested format is included in section 6-0100, Fixed Asset Ledgers."

5-1220.00 FIXED ASSET INVENTORY RECORDS (cont'd)

GAAP require the district to record general fixed assets in the **General Fixed Asset Account Group (GFAAG)**. Districts may choose to record additions and deletions to accounts in the GFAAG using the worksheet in section 6-0200, "GENERAL FIXED ASSET SCHEDULE OF CHANGES."

The district may record any property items owned by the district on its asset ledger. For example, minor equipment items, such as video cameras, may be recorded in the ledger for management control. The capitalization policy would then be used to determine which assets from the inventory ledgers would be capitalized in the GFAAG.

5-1230.00 COST OF FIXED ASSETS

Fixed assets should be recorded at cost or if donated, at their estimated fair market value at the time of receipt. If reliable historical cost records are not available, it is necessary to estimate the historical cost. The intent of this procedure is to estimate, as reasonably as possible based on available information, the fair market value of the item when it was acquired; it is not necessary to spend excessive resources in ascertaining exact historical cost if records are no longer available. See section 5-1260.50, "HOW TO ESTABLISH THE FIXED ASSET INVENTORY RECORDS."

Fixed assets are recorded in 4 categories. Costs to capitalize in each category are:

- a. Land and Land Improvements (General Ledger Accounts 311 and 321)--purchase price, costs such as legal and title fees, appraisal and negotiation fees, damage payments, site preparation costs (clearing, filling, leveling), demolition of unwanted structures, and any other costs of preparing the site for its intended use. If acquired as a gift, land should be recorded at its appraised value at the time it was acquired. "Infrastructure" assets, such as sidewalks, streets, parking lots, and fences are normally not capitalized.
- b. Buildings and Improvements (General Ledger Account 331)--purchase price, contract price, professional fees of architects, attorneys, appraisers, financial advisors, etc.; construction insurance premiums, interest and related costs incurred during the construction process; and any other costs of putting the building or structure into its intended state of operation. If acquired as a gift, the appraised value of the building should be capitalized. Also capitalize costs of building improvements such as fixtures (carpeting, ceiling and floor tile, plumbing and electrical systems, etc.) which are permanently attached to the building.

If constructed by district personnel instead of independent contractors, only the costs of materials used in construction or building improvements should be capitalized. See section 5-1230.20, "CODING THE ACQUISITION OR CONSTRUCTION OF FIXED ASSETS."

"Infrastructure" assets, such as sidewalks, streets, parking lots, and fences are not required to be capitalized. (1987 Codification 1400.109)

- c. Machinery and Equipment (General Ledger Account 341)--purchase price before trade-in allowance, minus discounts, plus transportation charges, installation costs, taxes, or other costs incurred to put the equipment into its intended state of operation.

5-1230.00 COST OF FIXED ASSETS (Cont'd)

- d. Construction Work in Progress (351)--represents a temporary capitalization of labor, materials, equipment, and overhead of a construction project. Upon completion of construction, accumulated costs are cleared or moved by transfer to another fixed asset classification (e.g., buildings). See section 5-1400.00, "CONSTRUCTION WORK IN PROGRESS."

5-1230.10 ESTIMATING THE COST OF FIXED ASSETS

If historical cost information for an asset is no longer available, the district will have to estimate the cost of the asset. The following calculation uses consumer price index information to deflate the estimated current cost of an item to the estimated cost when acquired.

Step 1. Determine the conversion factor.

$$\text{Conversion Factor} = \frac{\text{CPI for the Year the Item Was Acquired}}{\text{Current Year CPI}}$$

(See Appendix C for CPI-Consumer Price Index)

Step 2. Calculate the estimated cost.

$$\text{Estimated Historical Cost} = \text{Current Cost} \times \text{Conversion Factor}$$

Documentation of the source of the fixed asset's current cost and the actual or estimated year the asset was acquired should be maintained by the district for audit purposes. Records should indicate that an item's cost was estimated.

5-1240.00 DEPRECIATION

Accounting for depreciation means recording an asset's gradual loss in value as depreciation expense over the useful life of the asset. An asset is "fully depreciated" when depreciation expense which has been recorded equals the original cost less salvage value.

Procedures for recording depreciation depend on the nature of the asset and the type of fund which purchased the asset. Depreciation is recorded in proprietary funds and nonexpendable trust funds but is not normally recorded in expendable trust funds or in the General Fixed Asset Account Group. Land is never depreciated. If capitalized, the cost of infrastructure assets are not normally depreciated in the General Fixed Asset Account Group or expendable trust funds but must be depreciated in proprietary funds.

GAAP allows a district to use a depreciation method which systematically and rationally allocates the cost of a depreciable asset over its estimated useful life. Straight-line, sum-of-the-years'-digits, and double

5-1240.00 DEPRECIATION (Cont'd)

declining balance depreciation are considered acceptable methods. Once a depreciation method is put into use, it should be consistently applied. Straight-line depreciation is the simplest acceptable method and is recommended by OPI for use by districts.

The straight-line depreciation method expenses the same amount each year of the asset's estimated useful life. The cost of the asset, less any dollar value estimated to be recoverable at the end of the asset's useful life ("salvage value"), is allocated equally over the asset's useful life. Straight-line depreciation is calculated as follows:

$$\frac{\text{Cost} - \text{Salvage Value}}{\text{Useful Life}} = \text{Depreciation Expense each year of the Useful Life}$$

For example, assume a machine which cost \$7500 will probably be used 7 years and will probably be sold at that time for \$500. The cost is \$7500, the useful life is 7 years, and the estimated salvage value is \$500. Depreciation expense is calculated:

$$\frac{\$7500 - \$500}{7} = \$1000 \text{ each year for 7 years}$$

The depreciation expense recorded each year would be \$1000.

5-1240.10 RECORDING DEPRECIATION

The following examples show how to record annual depreciation in the various fund types and account groups.

Governmental and Expendable Trust Fund Types
Depreciation not recorded.

Proprietary and Nonexpendable Trust Fund Types

Debit: 802	Expenditures	\$1,000
Credit: 322, 332, or 342	Allowance for Depreciation	\$1,000
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-750	Depreciation Expense	\$1,000

General Fixed Asset Account Group (98) (Optional)

Debit: 911 thru 918	Investment in General Fixed Assets	\$1,000
Credit: 322, 332, or 342	Allowance for Depreciation	\$1,000

5-1250.00 RECORDING FIXED ASSETS

5-1250.10 GOVERNMENTAL FUNDS

An asset which was purchased from governmental funds and which meets the capitalization criteria set by the district (e.g. over \$5,000) must be recorded in the General Fixed Asset Account Group (GFAAG). Record the capital expenditure for the asset in the fund which purchased the asset.

To record the purchase: For example, assume a vehicle was purchased by the General Fund for \$20,000.

General Fund (01)

Debit: 802	Expenditures	\$20,000
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Credit: 620 or 101	Warrants Payable or Cash	\$20,000
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Expenditures Subsidiary Ledger

X01-XXX-XXXX-7XX	Property and Equipment Acquisition	\$20,000
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GFAAG (98)

Debit: 341	Machinery and Equipment	\$20,000
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Credit: 911	Investment in General Fixed Assets-Gen. Fund	\$20,000
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(To record the asset in the GFAAG. The asset should be identified as having been purchased by the General Fund.)

Record descriptive information on an asset inventory ledger. An example is shown in section 6-0100 of this manual.

Depreciation is not normally recorded for fixed assets accounted for in the GFAAG.

To record sale of fixed assets: For example, assume the vehicle which cost \$20,000 is sold for \$1,000. The original expenditure was made from the General Fund. NOTE: According to Section 20-6-604, MCA, proceeds from the sale of property must be deposited in the General Fund, Debt Service Fund, or building Fund, or other appropriate fund of the district, at the discretion of the board of Trustees. See pages 5-1200-19/21 for sample resolution and public notice to sell real and personal property.

GFAAG (98)

Debit: 911	Investment in General Fixed Assets - Gen. Fund	\$20,000
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Credit: 341	Machinery and Equipment	\$20,000
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(To remove the asset from the GFAAG at the cost originally recorded.)

The asset should also be adjusted on the fixed assets inventory ledger to reflect the disposal. Retain the ledger card after asset disposal for audit purposes.

General Fund (01)

Debit: 101	Cash	\$1,000
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Credit: 402	Revenues	\$1,000
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Revenue Subsidiary Ledger

X01-5200	Other Financing Sources-Sale or Compensation for Loss of Fixed Assets	\$1,000
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(To record the receipt of cash revenue from the sale.)

5-1250.10 GOVERNMENTAL FUNDS(Cont'd)

To record disposal of an asset with no cash involved (retirement): For example, assume the vehicle which cost \$20,000 is to be retired.

GFAAG (98)

Debit: 911	Investment in General Fixed Assets-Gen. Fund	\$20,000
Credit: 341	Machinery and Equipment	\$20,000

(To remove the retired asset from the GFAAG.)

An adjustment should be made on the fixed asset inventory ledger to indicate the vehicle is no longer in use. Retain the ledger card after asset disposal for audit purposes.

To record a purchase with a trade-in: For example, assume a vehicle costing \$8,000 purchased from the General Fund is traded in on a vehicle costing \$15,000. The trade-in value is \$2000 and the district must pay \$13,000 cash.

General Fund (01)

Debit: 802	Expenditures	\$13,000
Credit: 620 or 101	Warrants Payable or Cash	\$13,000

Expenditures Subsidiary Ledger

X01-XXX-XXXX-740	Major Equipment-Replacement	\$13,000
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(To record the purchase of the new vehicle costing \$13,000 in cash plus a vehicle with trade-in value of \$2000. If the item is not purchased as a replacement, use expenditure object 730-Major Equipment-New.)

GFAAG (98)

Debit: 911	Investment in Fixed Assets-Gen. Fund	\$8,000
Credit: 341	Machinery and Equipment (Old)	\$8,000

(To remove the old vehicle from the GFAAG at original cost.)

GFAAG (98)

Debit: 341	Investment in Fixed Assets-Gen. Fund	\$15,000
Credit: 911	Machinery and Equipment (New)	\$15,000

(To record the new vehicle in the GFAAG at full cost, which was \$13,000 cash plus a trade-in worth \$2000.)

The fixed asset inventory ledger should also be adjusted to document the disposal of the vehicle traded-in and record the new asset.

5-1250.20 EXPENDABLE TRUST FUNDS

Fixed assets acquired by expendable trust funds (any fund 81 through 85 for which the fund principal may be expended) must be recorded both as assets and expenditures in the fund. Depreciation is not normally recorded in expendable trust funds.

To record the purchase of a fixed asset: For example, assume the Endowment Fund (81) holds a single expendable trust dedicated to library improvements. The fund purchased a set of bookshelves costing \$10,000.

Endowment Fund (81)-if expendable

Debit: 802	Expenditures	\$10,000
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Credit: 620 or 101	Warrants Payable or Cash	\$10,000
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Expenditures Subsidiary Ledger

X81-XXX-XXXX-73X	Major Equipment-New	\$10,000
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(To record the expenditure for equipment purchased by the fund.)

Endowment Fund (81)-if expendable

Debit: 341	Machinery and Equipment	\$10,000
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Credit: 91X	Investment in General Fixed Assets	\$10,000
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(To record the fixed asset at cost. The asset will remain on the books at cost until sold or otherwise disposed. Depreciation expense is not normally recorded for assets purchased by an expendable trust fund.)

To record retirement of the fixed asset: For example, assume the bookshelves in the first example wore out and are scrapped.

Endowment Fund (81)-if expendable:

Debit: 9XX	Investment in Fixed Assets	\$10,000
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Credit: 341	Machinery and Equipment	\$10,000
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(To remove the retired asset from the records.)

To record the sale of a fixed asset: Assume the bookshelves in the preceding example are sold for \$1,000.

Note: According to Section 20-6-604, MCA, the proceeds of the sale may be deposited to the General Fund, Debt Service Fund, Building Fund, or any other appropriate fund (i.e. proceeds from the sale of a bus could go to the Transportation Fund).

Endowment Fund (81)

Debit: 101	Cash	\$800
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Credit: 402	Revenue	\$800
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Revenue Subsidiary Ledger

X81-5200	Sale of or Compensation for Loss of Fixed Assets	\$800
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(To record the sale of fixed assets.)

Endowment Fund (81)-if expendable

Debit: 9XX	Investment in Fixed Assets	\$10,000
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Credit: 341	Machinery and Equipment	\$10,000
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To remove the asset from the records.

5-1250.30 PROPRIETARY AND NONEXPENDABLE TRUST FUNDS

Fixed assets acquired by proprietary and nonexpendable trust funds (funds 70 through 77, and any trust funds for which principal remains intact) must be recorded as assets in the specific funds. The expenditure of the asset is reflected in the depreciation expense recorded annually.

To record the purchase of a fixed asset: Assume a district purchased a lathe costing \$10,000 using money from the Industrial Arts Fund (71). It is estimated the equipment will have a useful life of 10 years and a salvage (resale) value of \$1,000. For simplicity, assume the equipment is purchased at the beginning of the fiscal year, July 1.

Industrial Arts Fund (71)

Debit: 341	Machinery and Equipment	\$10,000
Credit: 620 or 101	Warrants Payable or Cash	\$10,000

(To record the purchase of equipment.)

An inventory ledger record should also be established for the lathe.

To record depreciation of the asset (usually recorded once a year at fiscal year-end):

Industrial Arts Fund (71)

Debit: 802	Expenditures	\$900
Credit: 342	Allowance for Depreciation of Machinery and Equipment	\$900

Expenditure Subsidiary Ledger

X71-XXX-XXXX-750	Depreciation Expense	\$900
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(To record depreciation expense of $(\$10,000 - \$1,000) / 10$ yrs = \$900 per year. The annual depreciation was calculated as shown in section 5-1210.60.)

In 10 years after recording \$900 per year of depreciation expense, the equipment would be considered fully depreciated.

To record sale for less than estimated salvage value: For example, assume the district sold the lathe with an estimated salvage value of \$1,000 fifteen years later for only \$250. Note: According to Section 20-6-604, MCA, proceeds from the sale of property must be deposited in the General Fund, Debt Service Fund, or Building Fund, or other appropriate fund of the district, at the discretion of the Board of Trustees. See pages 5-1200-19/21 for sample resolution and public notice to sell real and personal property.

Industrial Arts Fund (71)

Debit: 101	Cash	\$ 250
Debit: 342	Allowance for Depreciation of Equipment and Machinery	\$ 9,000
Debit: 402	Revenues	\$750

Revenues Subsidiary Ledger

X71-5200	Other Financing Sources-Sale of or Compensation for Loss of Fixed Assets	(\$ 750)
Credit: 341	Machinery and Equipment	\$10,000

(To remove accumulated depreciation related to the item sold, remove asset from books, and record loss related to sale of equipment.)

5-1250.30 PROPRIETARY AND NONEXPENDABLE TRUST FUNDS (Cont'd)

Sale for more than estimated salvage value: For example, assume the equipment purchased by the Industrial Arts Fund for \$10,000 with an estimated salvage value of \$1,000 was sold for \$1,500 after being fully depreciated.

Industrial Arts Fund (71)

Debit: 101	Cash	\$ 1,500
Debit: 342	Allowance for Depreciation of Machinery and Equipment	\$ 9,000
Credit: 341	Machinery and Equipment	\$10,000
Credit: 402	Revenue	\$ 500
Revenue Subsidiary Ledger		
X71-5200	Other Financing Sources-Sale of or Compensation for Loss of Fixed Assets	\$ 500

(To record the removal of accumulated depreciation, removal of the asset, and gain on the sale of fixed assets.)

To record purchase with a trade-in: Assume the district trades-in an older vehicle which cost \$12,000 on a new vehicle costing \$15,000. The old vehicle was fully depreciated, and accumulated depreciation of \$11,000 shows on the books. The trade-in value is \$2000. Assume market value for the new vehicle is \$14,000.

Proprietary Fund

Debit: 341	Equipment and Machinery (New)	\$14,000
Debit: 342	Allowance for Depreciation of Machinery and Equipment	\$11,000
Credit: 341	Equipment and Machinery (Old)	\$12,000
Credit: 620 or 101	Warrants Payable or Cash	\$13,000

(To book the new vehicle, remove the accumulated depreciation related to the old vehicle, remove the old vehicle, and record the cash payment.)

NOTE: Record the cost of new equipment as the cash paid plus the book value of the old asset (\$13000 + (12,000 - 11,000) = \$14,000), as long as the new asset cost does not exceed the market value of the asset.

5-1250.30 PROPRIETARY AND NONEXPENDABLE TRUST FUNDS (Cont'd)

To record purchase with a trade-in if the new asset market value is less than the cash paid plus the book value of the old asset: For example, if the new asset costing \$15,000 discussed in the preceding example is purchased for \$13,500 cash, the book value of the old asset traded-in is \$1,000, and the market value of the new vehicle is \$14,000, the accounting entry is:

Proprietary Fund

Debit: 341	Equipment and Machinery (New)	\$14,000
Debit: 342	Allowance for Depreciation of Machinery & Equipment	\$11,000
Debit: 402	Revenues	\$ 500
Credit: 341	Equipment and Machinery (Old)	\$12,000
Credit: 620 or 101	Warrants Payable or Cash	\$13,500

Revenue Subsidiary Ledger

XXX-5200	Other Financing Sources-Sale of or Compensation for Loss of Fixed Assets	(\$500)
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(To record the purchase with trade-in and a loss.)

5-1260.00 SPECIAL ISSUES

5-1260.10 RECORDING MAINTENANCE, ADDITIONS AND BETTERMENTS

Costs related to fixed assets after acquisition are classified as one of the following:

1. **ADDITIONS**--Costs to physically extend an existing asset. **Capitalize as part of the original asset.**
2. **BETTERMENTS**--Cost of replacing part of an existing asset, which results in increasing the service life or value of the asset. **Capitalize this cost as part of the original asset.** The amount to capitalize would be the cost of the new part less the cost of the part it replaced.
3. **EXTRAORDINARY REPAIRS AND MAINTENANCE**--Costs of maintenance and repairs which extend the life or result in benefits in future periods. For example, replacement of an obsolete part with a new part which considerably extends the useful life of a machine would be **capitalized as part of the value of the original asset** on the accounting records. If the asset is being depreciated, any extension of the asset's useful life should be used to recalculate the annual depreciation expense.
4. **ORDINARY REPAIRS AND MAINTENANCE**--Cost to keep an asset in its intended working condition, but which do not add significantly to the value of the asset. Charge these costs to appropriate current expenditure accounts. **Do not capitalize.**

To capitalize the cost of an addition, betterment or extraordinary repair as part of the original asset, record an addition on the ledger for the asset and record the cost in the GFAAG or proprietary or nonexpendable trust fund as you would record the addition of the cost of a new asset.

5-1260.10 RECORDING MAINTENANCE, ADDITIONS AND BETTERMENTS (Cont'd)

The classification of costs may require analysis of the nature of the project. The following chart may be used to classify costs related to fixed assets after acquisition.

**SUMMARIZATION TABLE FOR ADDITIONS, BETTERMENTS,
AND REPAIRS AND MAINTENANCE**

	ADDITIONS	BETTERMENTS	EXTRA- ORDINARY REPAIRS AND MAINTENANCE	ORDINARY REPAIR MAINTENANCE
Increases the physical size of a facility.	Yes	No	No	No
Extends useful life of asset.	Yes	Yes	Yes	No
Benefits a future period.	Yes	Yes	Yes	No
May involve replacement.	No	Yes	Yes	Yes
May involve substitution.	No	Yes	No	No
Makes facility better than when it was acquired.	Yes	Yes	Maybe	No
Cost should be capitalized.	Yes	Yes	Yes	No

5-1260.20 CODING THE ACQUISITION AND CONSTRUCTION OF FIXED ASSETS

Land:

Charge costs of land acquisitions, including costs to prepare land for its intended use to object 710-Land under function 4100-Site Acquisitions Services. At the end of the year, the balance in this line item account should be recorded in the General Fixed Asset Account Group under the balance sheet account 311 Land and the appropriate Investment in General Fixed Asset account 91X.

Land Improvements ("Infrastructure" Assets):

Costs of **contracted** construction of land improvements such as sidewalks, gutters, and fences should be charged to object 715-Land Improvements under function 4200-Land Improvement Services.

If **district employees construct** land improvements, charge salaries (object 1XX), benefits (object 2XX), supplies (object 610), etc. to function 2600-Operations and Maintenance of Plant. Charge materials to object 715 under function 4200.

Infrastructure assets are normally not recorded, but may be recorded, as fixed assets in the General Fixed Asset Account Group. If the district chooses to capitalize the infrastructure assets, the balance charged to the expenditure object 715 should be recorded at year end in the GFAAG under balance sheet account 321-Land and the appropriate Investment in Fixed Asset account 91X.

Buildings Purchased:

Costs of purchasing existing buildings should be charged to object 720-Buildings and Improvements under function 4500-Building Acquisition Services.

Buildings and Building Improvements Constructed by Independent Contractors:

Costs of new buildings constructed by contractors should be charged to object 720-Buildings and Improvements under function 4500-Building Acquisition Services.

Costs of building improvements constructed by contractors should be charged to object 725-Major Construction Services under function 4600-Building Improvements Services. If improvements are not considered fixed assets (i.e. cost less than \$5,000) they should be charged to object 460-Minor Construction Services under function 2600-Operations and Maintenance of Plant.

The charges to object 720 and 725 should be recorded in the GFAAG at fiscal year end in balance sheet account 331 Buildings and Improvements and the appropriate Investment in General Fixed Assets account 91X. Charges to object 460 should not be recorded in the GFAAG.

5-1260.20 CODING THE ACQUISITION AND CONSTRUCTION OF FIXED ASSETS (Cont'd)

Buildings and Building Improvements Constructed by District Personnel:

Costs of construction of buildings and building improvements performed by district employees instead of independent contractors should be allocated between current expenditures and capital outlay. Costs charged to object 7XX must also be recorded as fixed assets. For buildings or building improvements constructed by district employees, charge **costs of salaries (object 1XX), benefits (2XX) and supplies (6XX)** to current expenditures under function 2600-Operations and Maintenance of Plant. **Materials used in new buildings** constructed by district employees should be charged to object 720-Buildings and Improvements under function 4500-Building Acquisition and Construction Services. **Materials used in building improvements** which meet the capitalization criteria of the district (i.e. over \$5,000) should be charged to object 725-Major Construction Services under function 4600-Building Improvements Services. Materials which are not considered fixed assets (i.e. cost less than \$5,000) should be charged to object 460-Minor Construction Services under function 2600-Operations and Maintenance of Plant.

The charges to object 720 and 725 should be recorded in the GFAAG at fiscal year end in balance sheet account 331 Buildings and Improvements and the appropriate Investment in General Fixed Assets account 91X. Charges to objects 1XX, 2XX, 460, 610, etc. should not be recorded in the GFAAG.

5-1260.30 RECORDING CATASTROPHIC LOSS OR DAMAGE

When assets are damaged by fire, theft, vandalism, etc., the district should deposit the insurance proceeds into the Building Fund (60) as required by section 20-9-508, MCA. The Building Fund may pay for repairs or replacement for damaged property and other costs associated with the disaster, including replacement of supplies and textbooks, costs of supplementary payroll, etc.

1. **If damage is total**, remove the book value of the asset from the records as you would for retirement of a fixed asset in that type of fund. Record the insurance proceeds in the Building Fund (60) using revenue source 5200-Other Financing Sources-Sale of or Compensation for Loss of Fixed Assets.

For example, if a building with a book value of \$300,000 is destroyed by fire, and the district receives \$200,000 from the insurance:

GFAAG (98)

Debit: 91X	Investment in General Fixed Assets	\$300,000
Credit: 341	Machinery and Equipment	\$300,000

(To remove the book value of the building from the General Fixed Asset Account Group.)

Building Fund (60)

Debit: 101	Cash	\$200,000
Credit: 402	Revenue	\$200,000

Revenue Subsidiary Ledger

X60-5200	Other Financing Sources-Sale of or Compensation for Loss of Fixed Assets	\$200,000
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If the building is replaced, record the new building as shown in 5-1250.10 using the appropriate fund numbers which were used to replace the building (i.e. (01) for the General Fund or (60) for the Building Fund).

5-1260.30 RECORDING CATASTROPHIC LOSS OR DAMAGE (Cont'd)

- 2) **If damage is partial**, charge the costs of repair to current expenditures/expense. The original asset value should be retained. However, if the repair results in a betterment or addition, the cost should be capitalized as part of the original asset.

For example, assume equipment with a book value of \$30,000 was damaged in a fire. The district repaired the damage for \$4500 from the Building Fund (60) and received \$3000 from the insurance company:

Building Fund (60)		
Debit: 101	Cash	\$3000
Credit: 402	Revenue	\$3000
Revenue Subsidiary Ledger		
X60-5200	Other Financing Sources-Sale of or Compensation for Loss of Fixed Assets	\$3000

Building Fund (60)		
Debit: 802	Expenditures	\$4500
Credit: 620 or 101	Warrants Payable or Cash	\$4500
Expenditures Subsidiary Ledger		
X60-XXX-26XX-440	Repair and Maintenance Services	\$4500

GFAAG (98)

No entry required since equipment was returned to its original condition.

5-1260.40 FIXED ASSET CONTROLS

The following procedures are suggested methods to help the district management maintain controls over fixed assets:

1. Mark all moveable assets with a durable label or stamp to permit positive identification. Maintain records of assets owned by the district.
2. Inventory fixed assets annually, preferably at the end of the school year. Resolve differences between the fixed asset records and the physical inventory count. Missing items should be listed and written off in accordance with established district policies.
3. Retirement or disposal of property should be made in accordance with section 20-6-604, MCA. Disposal should occur only upon authorization of the board.

5-1260.50 HOW TO ESTABLISH FIXED ASSET INVENTORY RECORDS

To establish the fixed asset records, school districts may hire professional appraisers or may establish the records themselves using the following suggested procedures:

1. **Determine who will be responsible for the establishment and maintenance of a fixed asset control system.**
2. **Establish board policies for fixed asset control.** Procedures for purchasing fixed assets, recording them on the inventory records, periodically making a physical inventory count, disposing of assets, and updating inventory records should be established as written district policies. The district's policy should establish a cost and estimated life expectancy to use as criteria to determine which items. OPI suggests that items which cost \$5,000 or more and have an estimated useful life at acquisition of one or more years should be capitalized. Federal grant regulations require the district to capitalize assets purchased using federal moneys at \$5,000 or more. However, the district may choose different criteria for non-federal asset purchases. See 5-1200-2, MCA.
3. **Determine who will perform the original inventory count.** District personnel or contracted appraisers may be needed to help establish the first inventory of fixed assets.
4. **Prepare and distribute a statement of the board's objective to those who will assist with the count.** In small schools, teachers might be assigned to count assets in a classroom or other area. In larger districts, the principals or other area administrator might be assigned to oversee the count of a school's assets. If an area or an asset is used by more than one program or administrator, the responsibility for the area or asset should be reassigned to one person or program. The statement of objective should state the preliminary asset classification plan (e.g., items \$5,000 or more with life of 3 or more years) and any definitions needed to classify assets properly under the plan.
5. **The board or superintendent should request each administrator to count the fixed assets** in that administrative unit's control on or by a certain date. No cost determination is made at the time items are counted. A report using the terms and definitions in the classification plan should be prepared by the unit administrators. The report should be requested well in advance of the due date to allow ample time to complete the report accurately and completely.
6. **Assets leased** by the district on an operating, or rental-type, lease should not be included on fixed asset records because legal rights to the property do not belong to the district. Assets leased by the district in lease-purchase agreements must be counted as assets owned by the district.
7. **Determine the value of the assets to be included in the fixed asset inventory records.** Fixed assets should be valued at cost or at estimated cost if historical records of the cost are not available. Donated assets should be valued at their estimated fair market value at the date of acquisition.

Other resources, such as minutes of past board meetings, may be used to determine historical costs of items if invoices are not available.

Information such as cost and the date of purchase may not be known for assets acquired in prior years because invoices and other historical documentation is not available. The cost, date of purchase, and remaining useful life of the asset may be estimated. See Section 5-1230.10, "ESTIMATING COSTS OF FIXED ASSETS."

5-1260.50 HOW TO ESTABLISH FIXED ASSET INVENTORY RECORDS (Cont'd)

8. **Prepare inventory ledger cards for fixed assets** by account type:

General Ledger

Account Number

311	Land
321	Land Improvements
331	Buildings and Building Improvements
341	Machinery and Equipment
351	Construction Work in Progress (see section 5-1400, "Construction Work in Progress")

Assets which the district chooses to include on the inventory ledger system but which will not be capitalized in the GFAAG or a proprietary or nonexpendable trust fund (e.g., a hand held calculator which cost only \$25 but is recorded due to high theft potential) would be recorded in the ledger in the most appropriate asset category (e.g., 341). The total cost shown on asset ledgers may therefore differ from the total asset value recorded in the General Fixed Asset Account Group. Ledgers for non-capitalized property may be marked or color coded to identify them separately from items capitalized. This would aid the district or auditors in verifying the costs capitalized in the GFAAG and proprietary or nonexpendable funds.

Each item should be assigned and marked with a unique inventory item number to facilitate future verification and control of school property. If a group of similar items is to be considered one aggregate item, the property number should be assigned and marked on each piece.

(See section 6-0100.00, "FIXED ASSET LEDGER FORMS," for suggested ledger forms.)

Ledgers should be retained after asset disposal for future reference and audit purposes.

Land Improvements ("Infrastructure Assets") are not required to be capitalized on the accounting records. However, ledgers should be maintained for **all** fixed assets, including land improvements.

9. **Capitalize assets in the accounting records in the GFAAG or proprietary or nonexpendable trust fund.** For assets (other than land improvements) recorded on fixed asset ledger cards, determine the total costs to capitalize in Land (311), Buildings and Improvements (331), and Machinery and Equipment (341). Determine the value attributable to governmental funds for each asset type.

Assets which cannot be identified by specific fund because historical information is not available should be recorded in the GFAAG and either attributed to the General Fund or classified as assets purchased before a certain cutoff date for purposes of establishing the inventory records. This means these assets recorded in the GFAAG will be offset using either balance sheet account 911-Investment in General Fixed Assets-General Fund or 918-Investment in General Fixed Assets-Before 19____.

5-1260.50 HOW TO ESTABLISH FIXED ASSET INVENTORY RECORDS (Cont'd)

For example, assume you recorded assets on the ledger cards totalling:

311	Land	General Fund (01)	\$ 25,000
331	Buildings and Improvements	General Fund (01)	\$150,000
341	Machinery and Equipment	General Fund (01)	\$225,000
		Transportation (10)	\$ 40,000
		School Food (12)	\$ 3,000
		Industrial Arts (71)	\$ 26,500
		No historical records before 1980	\$ 25,000

Capitalize fixed assets of the governmental funds in the General Fixed Asset Account Group (GFAAG) by recording the following entry:

GFAAG (98)

Debit:	311	Land	\$ 25,000
Debit:	331	Buildings and Improvements	\$150,000
Debit:	341	Machinery and Equipment	\$293,000
Credit:	911	Investment in General Fixed Assets- Gen. Fund	\$400,000
Credit:	912	Investment in General Fixed Assets- Special Revenue Funds	\$ 43,000
Credit:	918	Investment in General Fixed Assets-Before 1980	\$ 25,000

(To record fixed assets in the GFAAG.)

Capitalize fixed assets of proprietary or nonexpendable trust funds in those funds by recording the following entry: Record the book value of the asset as contributed capital. For example, assume the \$26,500 machinery of the Industrial Arts Fund had an estimated useful life of 10 years and is now 7 years old. The accumulated depreciation is \$18,550 (\$26,500 divided by 10 years, times 7 years).

Industrial Arts Fund (71)

Debit:	341	Machinery and Equipment	\$ 26,500
Credit:	342	Allowance for Depreciation of Machinery and Equipment	\$ 18,550
Credit:	921	Contributed Capital	\$ 7,950

(To record fixed assets in the appropriate proprietary fund.)

10. **Record subsequent fixed asset purchases** as shown in sections 5-1250.10, .20 and .30. Code the expenditure for fixed assets as discussed in 5-1260.20, "CODING THE ACQUISITION AND CONSTRUCTION OF FIXED ASSETS."
11. **Dispose of fixed assets** only upon written authorization of the board. See section 5-1210.30. For assets purchased using federal or state grants, refer to OPI state and federal Grants Handbook.
12. **Count inventory yearly.** The reason for missing items should be investigated and the loss should be reported for insurance recovery, if applicable. The physical count and the inventory records should be brought into agreement at least once a year using established policies and procedures.

RESOLUTION NO. _____

DISPOSITION OF ABANDONED, OBSOLETE AND UNDESIRABLE PROPERTY

A RESOLUTION TO AUTHORIZE THE BOARD OF TRUSTEES OF SCHOOL DISTRICT NO. _____ AND HIGH SCHOOL, _____ (city), MONTANA TO DISPOSE OF ABANDONED, OBSOLETE AND UNDESIRABLE PROPERTY THROUGH THE SALES OR OTHER MEANS, AS PROVIDED BY SECTION 20-6-604, MCA.

WHEREAS, it has been determined certain _____ personal _____ real property as shown on the attached list has become abandoned, obsolete and undesirable by School District No. _____.

THEREFORE, BE IT RESOLVED, the Board of Trustees will dispose of this property through the sale or other means commencing on ____/____/____ which will be 14 days after notice of this resolution has been made in the manner required in Section 20-20-204, MCA.

PASSED AND APPROVED BY THE BOARD OF TRUSTEES OF SCHOOL DISTRICT NO. _____ THIS _____ DAY OF _____, _____.

Chairperson

Date _____

Attest:

Clerk

Date _____

LIST OF OBSOLETE, ABANDONED, SUPRLUS PROPERTY

DATE _____

[illegible]

PUBLIC NOTICE

DISPOSITION OF ABANDONED, OBSOLETE AND UNDESIRABLE PROPERTY

Notice is hereby given as required by Section 20-6-604, MCA, the Board of Trustees of School District No. _____ and High School adopted a resolution to sell or otherwise dispose of abandoned, obsolete and undesirable property at the _____ regular _____ special meeting on _____/_____/_____.

A list of this property can be found at any school building office between the hours of _____ a.m. and _____ p.m. Any taxpayer of the district may appeal this resolution to district court anytime prior to the effective date of the resolution. The effective date of the resolution will be _____/_____/_____.

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